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SUBJECT: Market Liberalization in Jordan Will Not Meet 2006
Expectations, and Slowdown Anticipated in 2007

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¶1. (SBU) Summary: The Chairman of Jordan's Executive Privatization Committee (EPC), former Finance Minister Mohammed Abu Hammour, offered an upbeat analysis of the government's privatization efforts and successes in 2006. The much-delayed but ongoing privatization of Jordan Telecom (JT) should conclude in 2006, and will net over half of the anticipated $800 million privatization proceeds for ¶2006. With Parliament pressing for some form of government share in the country's remaining state-owned companies - and the Privatization Council and Cabinet acquiescing - full government divesture for projects slated for privatization in 2007 seems unlikely, however. As a result, original estimates for privatization proceeds for 2006 will probably not be fully met. Because of its decision to retain large stakes in JT and Royal Jordanian Airlines (RJ), the government will likely categorize revenue collected from FDI in major energy, transportation, and water sector projects as "privatization proceeds" in its attempt to bolster its economic reform image; if actualized, these revenues will give the GoJ significant additional "buying power" in its efforts to alleviate the plight of those Jordanians most in need of assistance. END SUMMARY.

¶2. (SBU) In an October 17 meeting with EconCouns, Abu Hammour said he expects the GoJ to earn close to $1 billion in revenues from privatization transactions by year-end 2006. He originally projected that privatization proceeds would reach $1.2 billion in 2006 (ref A), but several deals will not be finalized until next year.

In 2006, Telecom Takes the Lead

¶3. (SBU) Originally slated to finish in early 2006, the divesture of the government's 41.5% stake in JT, worth approximately $443 million, has taken much longer than anticipated. The process of divesting the government's remaining stake in JT has been difficult due to the veto wielding power of "strategic partner" France Telecom (FT) and the government's recent decision to maintain some government control in the company. Frustrated, Abu Hammour could only describe the ongoing privatization of JT as a "unique transaction."

¶4. (SBU) Abu Hammour is dissatisfied with the GoJ's original negotiation of the shareholder's agreement with FT in 2000, the first large privatization transaction in Jordan. As a strategic partner with a 40% stake in JT, FT was granted first right of refusal in the sale of any further shares. This clause gives FT a veto in negotiating all terms for further government divestment.

¶5. (SBU) Using this veto, FT prevented the government from accepting a February 2006 offer by Sabih Al-Masri, one of Jordan's wealthiest individuals, to purchase all outstanding government shares for 5.5 JD/share which Abu Hammour projected would have netted the government $750-850 million. As FT exerted its influence, interest from outside investors like Al-Masri waned. Two of FT's own time-restricted offers to purchase 11% did not receive quick responses from the Privatization Council as the Parliament clamored for government retention of a role in JT. In September, the Privatization Council approved a third proposal by FT: a 5.16 JD/share offer for 10%, for a total of $180 million. EPC also agreed to a 5 JD/share offer for 10% from the Kuwait-based Nour Investment Company. Delay cost the GoJ approximately $24 million as the value of JT stock (representing FT's 10% acquisition) fell $12 million on the Amman Stock Exchange (ASE) from when FT first made an offer. NOTE: The loss was double the stock price value loss because the government also lost the same value in the debt swap. END NOTE.

¶6. (SBU) The government intends to hold on to 11.6% of JT stock which two Kuwaiti investors are positioned to bid on if the government moved forward on a sale. Opposition from the Parliament's lower house, however, has put the decision to do so on hold: out of 110 deputies, 62 sent a letter to the Prime Minister requesting the government maintain an 11.6% stake in JT, a petition which, according to Abu Hammour, made the Deputy Prime Minster (head of Privatization Council) reluctant about full divestiture. COMMENT: The recent 5% acquisition by the Social Security Department raises its total stake in JT to 13%, and the Jordanian Army is expected to acquire 3% at preferential prices. By selling shares to other government entities and deeming them "privatization transactions," the government has managed to keep an even tighter grip on JT (over 27% ownership). END COMMENT.

¶7. (SBU) The Cabinet has now requested that EPC negotiate terms that will allow the government to maintain both a financial stake and a management role. According to the current shareholder's agreement, if the government's share falls below 10%, it will lose its seats on JT's Board of Directors. Now that the Privatization Council and the Cabinet have taken the position that retaining a small government percentage is a good idea, maintaining government seats on the board has become a priority. COMMENT: Maintaining a management stake increases the level of conflict of interest and threatens to inhibit competition and further limit private-sector investment. Nour's reconsideration of its offer to buy 10%, and the lack of interest in new shares it issued on the Amman Stock Exchange, reinforce this concern. END COMMENT.

Other 2006 Privatization Proceeds

¶8. (U) The sale of 37% of Jordan Phosphate Mines Company to the Brunei Investment Agency earlier this year earned the government $110 million (ref B), and two technical subdivisions of RJ were sold for a total of $26 million.

Rushing to Cross the 2006 Finish Line

¶9. (SBU) Private sector participation in the electricity sector has been slower than hoped. Abu Hammour expects the government to put CEGCO, Jordan's national electric power company, on the market by year-end 2006, and according to a press report, an informed source at the Ministry of Energy and Mineral Resources expects procedures for privatizing electricity companies to be issued by month's end. Five financial investors have expressed interest, and two UAE companies have placed bids with the highest bid coming from Dubai Capital at $125 million. The proposals are currently undergoing Cabinet review, and Abu Hammour predicted the deal would be completed by year-end.

National Air Carrier to Remain "National" in Near Term

¶10. (SBU) Government divesture in RJ was originally scheduled for ¶2006. Due to major upgrades in the airline's information technology systems as well as major work required as part of its entry into the "oneworld" alliance, both the government and RJ management chose not to pursue privatization in 2006, instead shifting the schedule to ¶2007.

¶11. (SBU) RJ CEO Samer Majali told EconCouns he is satisfied with the government's pace in RJ's privatization. Majali said that when the airline does privatize, the government would continue to hold some shares. However, he said that would only be in the hopes of yielding a higher valuation of its stock when it sells it later. Majali also cited ICAO rules that require 50% ownership by a country's nationals for the carrier to operate as that country's carrier. The Cabinet decided to keep a 26% stake in RJ, and the EPC will look to divest the other 24% through an IPO and/or private-wealth investment. Majali speculated that 25-30% of RJ would be sold to investment banking consortia during the first half of 2007, and bids from Merrill Lynch, Goldman Sachs, and Citibank are undergoing evaluation.

Privatization Transactions to Slow in 2007...

¶12. (SBU) COMMENT: Proceeds from privatization transactions have helped alleviate Jordan's public debt burden, and are intended to fund development projects aimed at poverty alleviation over the next several years. However, Post is beginning to see a slowdown in the pace of "full" privatizations given the political opposition described above. With the cabinet's decision to maintain partial ownership in JT and RJ, full government divestures in these high-profile companies seem unlikely in the next few years. Although Abu Hammour had hoped that privatization proceeds would reach $1.2 billion this year, 2006 will, however, still be a benchmark year thanks to the long-anticipated sale of JT. END COMMENT.

...But Other Efforts in Play to Attract FDI

¶13. (U) Demonstrating the government's continued commitment to facilitating private-sector opportunities, Abu Hammour cited ongoing government tenders for a new airport, an expansion of Jordan's sole oil refinery, a Saudi-Jordan water pipeline, and an Amman-Zarqa light railway.

¶14. (SBU) The proposal to expand the Queen Alia International Airport (QAIA) drew 20 bidders. Abu Hammour expected the deal for a 30-year concession for the airport expansion project would be finalized by the end of this year. This BOT operation is led by the Ministry of Transportation, whose minister has told the Ambassador often that this project is one of his top priorities.

¶15. (SBU) The Jordan Petroleum Refinery Corporation (JPRC) concession expires in 2008, and three operators are expected to enter the sector to manage distribution (ref C). JPRC hopes a strategic partner will bring in $700-900 million, allowing for the expansion and upgrade of the refinery. According to Abu Hammour, Prime Minister Bakhit would prefer to see a project to build a new refinery. The latter idea, however, was rejected by the World Bank. Abu Hammour projected that the expansion of the refinery would cost $500 million, while building a new refinery would cost $700 million. NOTE: Both of these projections probably underestimate actual costs. END NOTE.

¶16. (SBU) Another possibility for increased FDI in 2007 is the Disi Aquifer Project, which aims to construct a pipeline from the Disi aquifer on Jordan's border with Saudi Arabia to Amman. According to Abu Hammour, the Minister of Water told Bakhit that he wanted no more than six companies to bid on the water contract (a $500-600 million project) as it would delay the bidding process. Abu Hammour suggested to Bakhit that as little as three companies' bids be considered for expediency's sake. EPC hopes to conclude a deal by the end of this year, and once the project is awarded, it will take

approximately four years to finish.

¶17. (U) According to recent media reports, Director General of the Public Transportation Regulatory Commission Hashem Masa'eed said that six international consortia have expressed interest in investing in the Amman-Zarqa Light Railway Project. He noted that so far, consortia from Kuwait, China, Estonia, Spain, Germany, France, Italy, Holland, Egypt, the UAE, and Jordan have presented their bids for this BOT project. Reportedly, the government is looking into setting up a railway line between Amman and QAIA.

The Future of Privatization?

¶18. (SBU) COMMENT: In reaction to Parliament's demand that the GoJ maintain some sort of ownership in remaining state-owned enterprises, the government appears to have taken the position that maintaining minority ownership is a positive step that will lead to higher valuation for government shares in a future sell-off. We are also seeing a shift in the type of privatization deals the government is engaging in: from full government divestiture to BOT transactions. If true, turning to this model may be short-sighted. Any remaining government ownership, including that remaining present after BOT-style privatization, leaves open the possibility of government interference and conflict of interest which may discourage future investment, innovation, and the market's ability to provide the best product at the lowest price. However, the GoJ remains committed to attracting as much private investment in strategic, state-run enterprises as the political traffic will bear. END COMMENT.

¶19. (SBU) NOTE: Through direct funding of the EPC of about $25 million, USAID has been a catalyst for market liberalization in Jordan over the last eight years. This has helped the GoJ generate approximately $2 billion in privatization proceeds used in poverty alleviation programs and to pay down public debt. END NOTE.